

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS

U.S. COMMODITY FUTURES TRADING  
COMMISSION,

Plaintiff,

v.

Civil Action No. 1:12-cv-05383

Honorable Rebecca R. Pallmeyer

PEREGRINE FINANCIAL GROUP, INC.  
and RUSSELL R. WASENDORF, SR.,

Defendants.

**TEMPORARY RECEIVER'S FIRST REPORT (JULY 10, 2012 - SEPTEMBER 10, 2012)**

Michael M. Eidelman, not individually, but in his capacity as the Court-appointed temporary Receiver for Russell R. Wasendorf, Sr. ("Receiver"), by his attorneys, respectfully submits his First Report ("Report"),<sup>1</sup> concerning activities between July 10, 2012 and September 10, 2012.

**Introduction**

On July 10, 2012 ("Commencement Date"), Plaintiff U.S. Commodity Futures Trading Commission ("CFTC") filed its Complaint (the "Complaint") and a Motion for a Temporary Restraining Order against Peregrine Financial Group, Inc. ("PFG"), a registered futures Commission Merchant and Russell R. Wasendorf, Sr. ("Wasendorf, Sr.") and, collectively with PFG, ("Defendants"), PFG's chief executive officer and owner. Defendants are alleged to have failed to maintain approximately \$200 million of customer funds in segregated accounts, as

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<sup>1</sup> This Report is intended as a summary of the Receiver's activities since his appointment, and does not purport to completely reflect the extent of the Receiver's work or findings. Further, this Report is subject to the Receiver's ongoing investigation; thus, nothing contained herein shall be deemed to be an admission by the Receiver concerning any matter discussed herein.

required by the Commodity Exchange Act (the “CEA”), 7 U.S.C. §§ 1, *et seq.*, and the CFTC Regulations (the “Regulations”) promulgated thereunder, 17 C.F.R. §§ 1.1, *et seq.* Specifically, the CFTC contends that Defendants, from at least February 2010 through July 2012, misappropriated customer funds for their own purposes and filed false reports with the CFTC regarding the amount of segregated customer funds held by PFG, all through a fraudulent scheme orchestrated by Wasendorf, Sr.

In addition to the filing of the Complaint, the following also occurred on the Commencement Date:

- This Court entered a *Statutory Restraining Order* (Docket No. 10) (the “SRO”) to preserve the status quo, protect PFG’s customers and enable the CFTC to fulfill its duties under the CEA and the Regulations. Among other things, the SRO froze Defendants’ assets, forbade the destruction of Defendants’ books and records and granted the CFTC access to administer Defendants’ property and records.
- This Court entered an *Order Appointing a Temporary Receiver* (Docket No. 11) (the “Initial Receiver Order”) appointing the Receiver as temporary receiver for both Defendants.
- PFG filed a voluntary Chapter 7 bankruptcy petition in the United States Bankruptcy Court for the Northern District of Illinois (Case No. 12-27488) (the “Bankruptcy Case”).<sup>2</sup>

On July 17, 2012, this Court entered an *Amended Order Appointing a Temporary Receiver* [Docket No. 29] (the “Amended Receiver Order”) whereby the Court, among other

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<sup>2</sup> Subsequent to the filing of the Bankruptcy Case, Ira Bodenstein was appointed Chapter 7 trustee for PFG (the “Trustee”).

things, (i) clarified the Initial Receiver Order by providing that the Receiver had jurisdiction over Wasendorf, Sr. and any entity he owns and/or controls (collectively, the “Wasendorf Entities”), and (ii) appointed the Receiver to marshal, preserve and liquidate the Assets<sup>3</sup> of Wasendorf, Sr. and the Wasendorf Entities (collectively, the “Receivership Entities”). The Receiver’s authority does not extend to PFG or any its subsidiaries. The claims of PFG’s creditors and customers are being administered by the Trustee in the Bankruptcy Case, not the Receiver.

Pursuant to the Amended Receiver Order, the Receiver is directed to, among other things, preserve, hold and manage all receivership Assets he collects, and perform all acts necessary to preserve the value of those Assets, in order to prevent any loss, damage or injury. *See* Amended Receiver Order at I.A-C. As explained in greater detail herein, since the Commencement Date, the Receiver (1) identified, located, preserved and monetized (when possible) certain Assets of the Receivership Entities, and (2) investigated the location, value and identity of other Assets (including, without limitation, litigation claims). In furtherance of such investigation, the Receiver and his counsel met (in-person or telephonically) with, among others, the following: (1) the CFTC; (2) the U.S. Department of Justice (“DOJ”); (3) former employees of PFG; (4) the Trustee; (5) the Federal Bureau of Investigation (“FBI”); (6) various financial institutions; (7) numerous professionals formerly employed by Wasendorf, Sr. and/or the Wasendorf Entities; and (8) former employees of the Wasendorf Entities. The Receiver and his counsel, along with representatives from the CFTC, DOJ and FBI, also participated in two in-person interviews with Wasendorf, Sr., totaling over 12 hours. Wasendorf, Sr. has professed his desire to assist the

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<sup>3</sup> In accordance with the Amended Receiver Order, the term “Assets” means any of the Receivership Entities’ legal or equitable interest in, right to, or claim to, any real or personal property, including but not limited to chattels, goods, instruments, equipment, fixtures, general intangibles, effects, leaseholds, mail or other deliveries, inventory, checks, notes, accounts, credits, receivables, lines of credit, contracts, insurance policies, and all cash, wherever located.

Receiver and law enforcement in their respective duties, and the Receiver gleaned valuable information relating to the Assets and liabilities of the Receivership Entities as a result of these interviews.<sup>4</sup>

As previously reported to the Court, the Assets are diversified and include, among other things, (i) a restaurant, (ii) a publishing company, (iii) an aircraft, boat, automobiles and other recreational vehicles, (iv) life insurance policies, (v) a 4,000 bottle wine collection, (vi) various equity interests in domestic and foreign companies, (vii) significant amounts of personal property, and (viii) real estate. Given the allegations in the case, the statements accompanying Wasendorf, Sr.'s suicide note,<sup>5</sup> and other information obtained by the Receiver, many of the Assets were procured and/or supported with funds Wasendorf, Sr. embezzled from customer segregated accounts at PFG.

## **I. The Receiver's Professionals**

Since the Commencement Date, the Receiver retained the following professionals to assist him in the performance of his duties:

### **A. Vedder Price P.C.**

Vedder Price P.C. ("Vedder Price"),<sup>6</sup> a law firm with offices in Chicago, New York, Washington D.C. and London, is providing legal services to the Receiver.<sup>7</sup> Among other things,

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<sup>4</sup> While the Receiver is unable to currently verify whether the information provided by Wasendorf, Sr. is complete and accurate in all material respects, the Receiver notes that Wasendorf, Sr. was under no obligation to meet with the Receiver, answered every question posed by the Receiver (without invoking his 5th Amendment rights), executed a letter waiving any privilege (including, without limitation, the attorney/client privilege) respecting the Assets ("Privilege Waiver"), and offered to assist the Receiver in monetizing the Assets.

<sup>5</sup> Portions of this statement are contained in the Criminal Complaint filed on July 11, 2012 in the United States District Court for the Northern District of Iowa (Case No. 12-MJ-131), and a copy is also available on this Court's Docket, attached as Exhibit C to the *Emergency Motion to Amend Order Appointing Temporary Receiver* [Docket No. 20].

<sup>6</sup> The Receiver is a Vedder Price shareholder and co-chairs the firm's Bankruptcy and Insolvency Group.

Vedder Price is providing legal advice as necessary with respect to the Receiver's powers and duties, including, without limitation, (i) assisting the Receiver in investigating the acts, conduct, Assets, liabilities and financial condition of the Receivership Entities, (ii) advising the Receiver in connection with the sale/liquidation of Assets, (iii) analyzing potential claims, (iv) preparing on behalf of the Receiver, as necessary, the filing of applications, motions, complaints, answers, orders, agreements and other legal papers, (v) appearing before this Court (or in the Bankruptcy Case) to present necessary motions, applications and pleadings, and otherwise protecting the interests represented by the Receiver, and (vi) performing such other legal services as may be required and that are in the best interests of the Receiver's appointment and the creditors of the Receivership Entities.

**B. Rally Capital Services, LLC**

Rally Capital Services, LLC ("Rally Capital"), specializing in financial, administrative, and operational management advisory services (including as a contractor for the U.S. Marshall), is serving as the Receiver's sale/liquidation agent. In that capacity, Rally Capital's tasks include, without limitation, preserving the Assets (e.g., hiring locksmiths, securing the Assets, arranging for necessary repairs, etc.) and assembling and readying the Assets for sale. In addition, Rally Capital provides numerous non-legal services to the Receiver, including opening bank accounts, arranging for payment of valid post-Commencement Date claims and assisting the Receiver in placing insurance.

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<sup>7</sup> Since the Initial Receiver Order did not specifically authorize the Receiver to retain professionals without Order of this Court, the Receiver obtained an Order approving Vedder Price's retention. [Docket No. 29]. The Amended Receiver Order provides the Receiver can retain professionals without further Order of the Court.

**C. Dutton, Braun, Staack & Hellman, P.L.C.**

Dutton, Braun, Staack & Hellman, P.L.C. ("Dutton Braun") is a law firm located in Waterloo, Iowa. Dutton Braun is acting as local counsel to the Receiver and is assisting the Receiver with various issues governed by Iowa law.

**D. Epoch Insights, Inc.**

Epoch Insights, Inc. ("Epoch") is assisting the Receiver in investigating, identifying and locating Assets and identifying third parties that may have received voidable transfers from any of the Receivership Entities. Epoch will, among other things, (i) research relevant foreign and domestic records, including banking transactions, telephone records and internet records, (ii) make inquiries with various foreign entities to better understand Wasendorf, Sr.'s connections and activities in various foreign locations, (iii) utilize various sources and methods to gain further insight into Wasendorf, Sr.'s domestic and foreign activities, and (iv) assist Vedder Price with any leads or other guidance as requested. Additionally, Epoch has valuable experience in forensic financial investigations and significant resources and contacts in Eastern Europe where the Receivership Entities may have Assets.

**E. Rally Appraisal, LLC**

Rally Appraisal, LLC ("Rally Appraisal")<sup>8</sup> is an appraisal firm certified in Iowa, Illinois and Wisconsin. The Receiver engaged Rally Appraisal to complete appraisals on all six Iowa properties owned by Wasendorf, Sr. or the Wasendorf Entities.

**F. Rust Omni Consulting**

Rust Consulting/Omni Bankruptcy ("Rust Omni") is the Receiver's claims and information agent, and is assisting the Receiver by providing claims management and noticing

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<sup>8</sup> Rally Appraisal, LLC has no relationship with Rally Capital Services, LLC.

services, hosting virtual data rooms for facilitating the sale of the Assets and maintaining the Receiver's website, [www.omnimgt.com/wasendorfreceiver](http://www.omnimgt.com/wasendorfreceiver).

**G. Retained Individuals**

The Receiver retained certain individuals located in Cedar Falls, Iowa that formerly were employed by certain of the Wasendorf Entities, including, but not limited to, the following:

i. Heather McCallum, formerly the Chief Financial Officer of Wasendorf & Associates Inc., continues to assist the Receiver in identifying, locating and preserving Assets and compiling up-to-date books and records for each of the Wasendorf Entities.

ii. Melanie Decker, formerly the Customer Service and Sales Manager for Traders Press, a division of Wasendorf & Associates, Inc. ("Traders Press"), continues to assist the Receiver's agents by providing (i) access to the Traders Press premises, and (ii) information regarding its operations, books and records. Ms. Decker also updated the books and records for Traders Press and continues to provide information as needed.

iii. Robert Thompson, formerly the head pilot of Wasendorf Air, LLC, assisted the Receiver in securing the aircraft owned by Wasendorf Air LLC, and other related Assets stored at the Waterloo, Iowa airport hangar.

iv. Cindy Zubak, formerly the manager of My Verona, LLC, continues to assist the Receiver on all matters related to the restaurant located in Cedar Falls, Iowa, including taking inventory, corresponding with vendors, maintaining books and records, and preserving the value of the restaurant Assets until final disposition by the Receiver.

The foregoing individuals assisted the Receiver in winding down operations and preserving Assets for the Wasendorf Entities. Their activities are described in greater detail herein.

## **II. Wasendorf, Sr.'s Family Background**

Wasendorf, Sr. was born in Cedar Rapids, Iowa on February 25, 1948. He attended the University of Northern Iowa and graduated in 1971. He married Connie J. Wasendorf ("Connie") on July 31, 1976. They divorced on December 30, 2010. Wasendorf, Sr. has one adult child, Russell R. Wasendorf, Jr. ("Wasendorf, Jr."). Wasendorf, Jr. was the President of PFG at the time of its collapse and possesses an ownership interest in certain Wasendorf Entities.

Wasendorf, Sr. married Nancy Paladino ("Nancy") in Las Vegas, Nevada on June 30, 2012, less than two weeks before he attempted to commit suicide on July 9, 2012, and more than a month before their previously scheduled August 4, 2012 wedding date in Cedar Falls, Iowa, to which they had sent invitations. On August 13, 2012, Nancy filed for annulment proceeding in the State of Nevada (*Nancy Paladino v. Russell R. Wasendorf*, Case No. D-12-467681-L), asserting that she knew nothing of Wasendorf, Sr.'s fraudulent activity or contemplated suicide attempt, and thus was married under false pretenses.

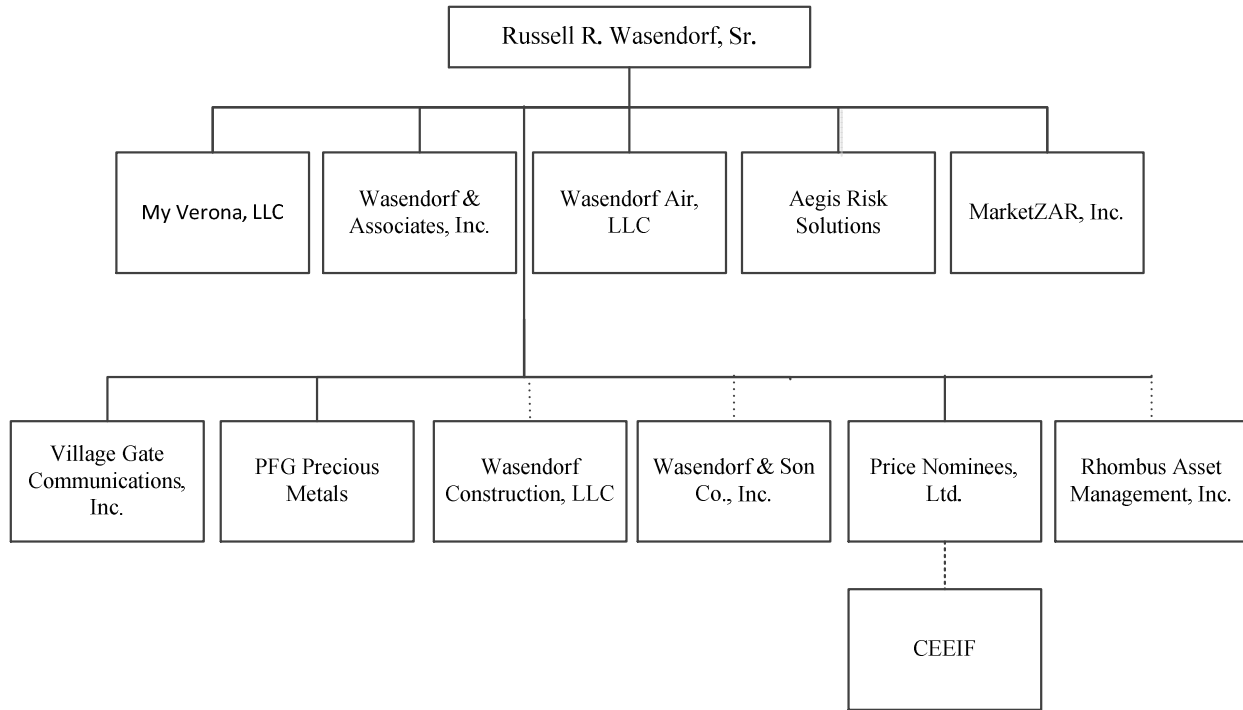
## **III. Corporate Structure of Wasendorf Entities**

Below is an organizational chart setting forth Wasendorf, Sr.'s interest in the Wasendorf Entities.<sup>9</sup>

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<sup>9</sup> A solid line connecting Wasendorf, Sr. to a Wasendorf Entity reflects Wasendorf, Sr.'s 100% ownership interest in such Wasendorf Entity. A dotted line reflects Wasendorf, Sr.'s interest as less than 100%.





While the Receiver obtained detailed information regarding many of these entities, the Receiver's investigation is ongoing.<sup>10</sup> Information concerning certain of the Wasendorf Entities is set forth below.

#### **A. My Verona, LLC**

My Verona, LLC ("My Verona") was an Italian restaurant wholly owned by Wasendorf, Sr., located at 419 Main Street in Cedar Falls, Iowa. It is adjacent to My Verona Deli (a casual restaurant/bar with a carry-out service), with the two properties jointly accessible by an internal doorway. Although My Verona had average monthly receipts in excess of \$200,000 in the three months prior to the Commencement Date, it never generated a profit.

My Verona Deli operates within the corporate structure of My Verona, but its premises is leased from an unrelated third party.<sup>11</sup> My Verona's Assets include traditional restaurant assets,

<sup>10</sup> Certain of these entities may be defunct or may have been dissolved. The Receiver continues to investigate Wasendorf, Sr.'s ownership and interest in these entities.

including furniture and kitchen equipment (located in both My Verona and My Verona Deli) and a large wine collection. My Verona also houses a portion of Wasendorf, Sr.'s personal wine collection in one of its two large wine cellars.

Upon his appointment, the Receiver immediately acted to secure the My Verona premises and preserve its Assets. Cindy Zubak, the former manager of My Verona, was immediately retained by the Receiver to wind down restaurant operations<sup>12</sup> and dispose of perishable food items and opened liquor (which could not be resold). Ms. Zubak also completed an inventory of the My Verona wine collection as well as Wasendorf, Sr.'s personal wine collection stored at My Verona.

On August 8, 2012, the Receiver and his counsel met with the former employees of My Verona in a "town hall meeting" to discuss various issues related to the Receivership and allow them the opportunity to ask questions regarding their unpaid wages and related benefits.

**B. Wasendorf & Associates, Inc.**

Wasendorf & Associates, Inc. ("Wasendorf & Associates") is comprised of a publishing business, an online bookstore, and an online magazine geared toward futures trading. These businesses operate under the names Traders Press, W&A Publishing, and SFO Magazine. Wasendorf & Associates is based out of a warehouse owned by Wasendorf Construction, LLC, located at 5729 Westminster Drive in Cedar Falls, Iowa. One of Wasendorf & Associates' largest Assets is its inventory of books relating to the financial industry, many geared toward futures trading, that are stored at the warehouse and sold by the online bookstore. Wasendorf & Associates is also a party to contracts with several authors for the sale and/or publishing of their

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<sup>11</sup> The real estate upon which My Verona operated is owned by Wasendorf Construction (defined below).

<sup>12</sup> My Verona ceased operating on the Commencement Date.

books. Wasendorf, Sr. himself wrote two books on futures trading that were published and sold through Wasendorf & Associates.

The Receiver worked quickly to secure the warehouse and shut down sales through the online bookstore. To assist him in readying the Assets for sale, the Receiver retained Melanie Decker, the former Customer Sales Manager for Traders Press, who has the most knowledge of Wasendorf & Associates' day-to-day business operations. Ms. Decker brought the inventory and receivable lists for Wasendorf & Associates current, contacted authors regarding the cessation of business operations, and calculated outstanding royalties owed.

The Receiver believes the Assets of Wasendorf & Associates, particularly Traders Press, have value, and is working diligently to conduct a sale of same in order to maximize the value of the Receivership estate. To that end, the Receiver contacted approximately 430 prospective bidders advising them that the Assets of Wasendorf & Associates would be sold. On September 6, 2012, the Receiver procured an *Order: (A) Approving Procedures Relating to the Sale of Publishing Assets; (B) Approving the Form and Manner of Notice of Sale; (C) Scheduling a Hearing to Consider Sale of Publishing Assets; and (D) Granting Related Relief* [Docket No. 85] ("Sale Order") approving certain sale procedures ("Sale Procedures"). Pursuant to the Sale Order, the Sale Procedures were transmitted to all interested bidders, will be published in The Chicago Tribune as well as a publication of general circulation in the Cedar Falls/Waterloo, Iowa area for two (2) consecutive weeks and will be made available at [www.omnimgt.com/wasendorfreceiver](http://www.omnimgt.com/wasendorfreceiver). Moreover, once a prospective bidder signs a Non-Disclosure Agreement, they will be invited to join the Wasendorf & Associates virtual data room where they will have online access to, among other things, the company's books and records, financial statements, and other relevant information.

**C. Wasendorf Construction, LLC**

Wasendorf Construction, LLC ("Wasendorf Construction") is jointly owned by Wasendorf, Sr. and Wasendorf, Jr. Although Wasendorf, Jr. owns a majority interest in Wasendorf Construction, the Receiver's investigation reveals that Wasendorf, Sr. controlled Wasendorf Construction and Wasendorf, Jr. had only a minor role in its activities. Thus, the Receiver maintains that Wasendorf Construction is one of the "Wasendorf Entities," as that term is defined in the Amended Receiver Order. Although the Receiver has been in contact with Wasendorf, Jr.'s counsel on this topic, the Receiver is currently unaware whether Wasendorf, Jr. concurs with the Receiver's position.

Wasendorf Construction owns several buildings utilized by the Wasendorf Entities, and also owns the PFG corporate headquarters located in Cedar Falls, Iowa. In addition, Wasendorf Construction holds title to nearly all the office furniture and other Assets stored within the properties it owns, with the exception of the computers, servers and other electronic Assets located at the PFG corporate headquarters.

The real property owned by Wasendorf Construction is described in greater detail in Section V, *infra*.

**D. Wasendorf Air, LLC**

Wasendorf Air, LLC ("Wasendorf Air") is wholly owned by Wasendorf, Sr. Its primary asset is a Hawker Beechcraft model 400A (the "Aircraft") stored in a private hangar at the Waterloo, Iowa airport. Wasendorf Air formerly employed three pilots. The Receiver immediately retained the chief pilot in order to secure the Aircraft and preserve its value. From and after the Commencement Date, the Aircraft was grounded.

The Aircraft is subject to a lien securing a debt in excess of \$4.2 million (the "Lien"), held by Cessna Finance Corporation ("Cessna"). In the course of his investigation, the Receiver

learned Wasendorf Air and Family Air, LLC (“Family Air”), an entity wholly owned by Jim Mudd, Jr. and his family, previously co-owned the Aircraft. Family Air and Wasendorf Air are parties to an Aircraft Purchase Agreement, pursuant to which Family Air agreed to sell its interest in the Aircraft to Wasendorf Air in exchange for Wasendorf Air making a certain payment to Family Air and assuming liability to Cessna under the terms of a Promissory Note they each executed in favor of Cessna.<sup>13</sup>

The Receiver promptly retained Aircraft Appraisal Services to prepare a desktop appraisal of the Aircraft and was advised the Aircraft was worth approximately \$3.2 million (or \$1 million less than what Cessna was owed). The Receiver also reviewed Cessna’s underlying loan documents and Lien filings and determined there was no basis to avoid the Lien. Consequently, the Receiver sought entry of an Order allowing him to return the Aircraft to Cessna or make other arrangements with Family Air. On August 8, 2012, this Court entered its *Order Granting Receiver’s Motion for Entry of Order (A) Permitting Receiver to Surrender and/or Abandon Certain Receivership Assets, and (B) Granting Related Relief* [Docket No. 58]. Since entry of this Order, the Receiver, Cessna and Family Air executed an Agreement pursuant to which the Receiver abandoned his interest in the Aircraft and was relieved of any post-Commencement Date obligations concerning the Aircraft.

#### **E. Rhombus Asset Management, Inc./CEEIF<sup>14</sup>**

In addition to the foregoing domestic entities, Wasendorf, Sr., holds equity interests—directly or indirectly—in numerous foreign entities, primarily in Romania. In 1998, Wasendorf,

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<sup>13</sup> Notwithstanding this sale, Family Air remained a guarantor on the debt owed to Cessna.

<sup>14</sup> Although this Report is qualified in its entirety, the Receiver notes his investigation of this particular subset of Assets is in its infancy. Further, many of the issues described herein were culled from pleadings filed in litigation pending in the Cook County Circuit Court and thus may be disputed by other parties involved in such litigation.

Sr. formed Rhombus Asset Management, Inc. (“Rhombus”) with Alexander Hergan, Mark Proskine and Glenna Mo (together with Wasendorf, Sr., the “Rhombus Investors”) to invest in Romanian real estate and related ventures. Subsequent to its formation, Copalder Ltd. and Dragos Petrescu became shareholders in Rhombus. Rhombus’ initial investment was the purchase of real property located at Avrig 35 in Bucharest, Romania. Because Romanian property must be owned by a Romanian citizen or entity, the Rhombus Investors formed Avrig 35 SRL (“Avrig 35”) to acquire the property. Over the next three years, Avrig 35 served as the primary acquisition vehicle for Rhombus’ investments in Romania. With each new acquisition, Avrig 35 would establish a new Romanian entity to acquire and develop the property. Avrig 35 would often obtain additional investors for each particular project, some of whom would be given an equity interest in the new entity in return for their investment.

Most of the projects in which Avrig 35 invested were for the development and sale of real estate. Avrig 35 currently owns, among others, the following Romanian properties which are for sale or lease:

- Radu Calomfirescu 8, Bucharest - for sale
- Schitu Magureanu 37, Bucharest - for sale/to lease
- Pangratti 10, Bucharest - to lease
- Belvedere 7, Predeal, Brasov County - for sale/to lease
- Traian 51, Constanta, Constanta County - to lease
- Libertatii 5, Satu-Mare, Satu-Mare County - for sale
- Ana Ipatescu 17, Satu-Mare, Satu-Mare County - for sale
- Crisan 2 / Avram Iancu 39, Satu-Mare, Satu-Mare County - for sale

Avrig 35 also established or acquired businesses that complemented its real estate business, including (i) Strategic Asset Management, providing facility management services to

banks and other companies, (ii) Flexxelf, one of Romania's largest façade systems companies, (iii) Lifetime Glazing Solutions Group, a large construction glass supply company, (iv) Echipamante Constructii Montaj, a construction equipment company, (v) Pratach Production, an audio and video production and post-production company, (vi) Protach TV, a utility television station, (vii) Studio Projectare 35, an architecture and urban planning company, and (viii) Constellation Management, a property management company. In addition to these related companies, Avrig 35 also owns Delta Constellation, a franchisee of Cache Cache, a French fashion and ready-to-wear store, and Gamma Constellation, a franchisee of GO Sport, a French athletic shoes and clothing store. These entities continue to be an active part of the Avrig 35 Group of companies.

In 2000, the Rhombus Investors formed CEEIF, a Cypriot company, to hold the assets of Rhombus and Avrig 35. CEEIF was apparently created to provide the Rhombus Investors with U.S. tax benefits on the foreign income they received from their Romanian investments.<sup>15</sup> Eventually, the Rhombus Investors each formed their own Cyprus trust to hold each of their individual shares of CEEIF. Wasendorf, Sr.'s interest in CEEIF is held by Price Nominees, Ltd. ("Price Nominees"), his wholly owned Cyprus Trust.

The Rhombus Investors also created two Dutch entities, Oceanis International Cosmetics B.V. ("Oceanis") and F&C International B.V. (later known as CEERES).<sup>16</sup> When Rhombus and Avrig 35 created new Romanian companies for their enterprise, the new entity became a

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<sup>15</sup> The profits from Rhombus and Avrig 35 would flow through CEEIF and then be disbursed to the Rhombus Investors.

<sup>16</sup> It does not appear that the CEEIF shareholders ever implemented a shareholder agreement for CEEIF, F&C/CEERES or Oceanis.

subsidiary of F&C/CEERES or Oceanis. This purportedly allowed the Rhombus Investors to take advantage of Netherlands' corporate tax treaties.

Based upon information provided to the Receiver, Wasendorf, Sr., through Price Nominees, holds an 11.37% interest in CEEIF and a 15.7305% interest in Rhombus. Wasendorf, Sr.'s interest in any of the other aforementioned entities is currently under investigation. Litigation is currently pending in the Circuit Court of Cook County, Illinois over the proper allocation of ownership interests in CEEIF, with Glenna Mo contending that she is entitled to receive up to 47.21%.<sup>17</sup>

The Receiver is in the process of determining the extent of Wasendorf, Sr.'s equity interests in these foreign entities and the value of same. Due to multiple variables, the Receiver is unable to currently quantify the actual value of the CEEIF Assets.

#### **F. The Peregrine Charities**

The Peregrine Charities is an Illinois 501(c)(3) corporation founded by Wasendorf, Sr. and organized for charitable purposes. Wasendorf, Sr., Wasendorf, Jr. and Connie served as directors of The Peregrine Charities, and Wasendorf, Jr.'s wife, Amber Wasendorf, was the Executive Director. The Receiver and the Trustee are working together to investigate whether The Peregrine Charities falls under the jurisdiction of the Receiver or the Trustee and other potential actions. Until such investigation is concluded, The Peregrine Charities bank account held at U.S. Bank National Association ("U.S. Bank") remains frozen.

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<sup>17</sup> See *Rhombus Asset Mgmt., Inc. v. Mo*, No. 07 CH 3966. On August 1, 2012, the presiding judge entered an order granting in part and denying in part the cross-motions for summary judgment filed by the parties. In particular, the judge denied the summary judgment motion of Rhombus and CEEIF without prejudice with respect to Mo's claimed additional equity interest in Rhombus and CEEIF. The parties have been ordered to mediation. Although Wasendorf, Sr. is not a named party, the Receiver is considering what role, if any, should be taken in this litigation or the mediation.



#### IV. Bank Accounts

Immediately upon his appointment, the Receiver identified and preserved all cash held or controlled by the Receivership Entities. Based upon his initial and continued investigation, the Receiver believes most of the Receivership Entities' cash Assets were maintained at U.S. Bank. The Amended Receivership Order authorized the Receiver to open bank accounts at The Private Bank in Chicago to hold Receivership cash Assets and proceeds from liquidations. These cash Assets were transferred from U.S. Bank to The Private Bank on August 1, 2012. All funds collected by the Receiver have been, and will continue to be, deposited into segregated accounts based on the Receivership Entity for which such amount was received. Cash will be distributed from such accounts upon further Order of this Court.

The following chart sets forth the amounts of cash held in each Receivership account as of September 10, 2012. Such amounts reflect the cash transferred from U.S. Bank and the distributions made by the Receiver pursuant to his powers under the Amended Receivership Order and subsequent Orders of the Court.

<b>Private Bank Account Title</b>	<b>Private Bank Account Subtitle</b>	<b>Private Bank Account Balance</b>
Wasendorf in Receivership	Wasendorf Air	\$ 4,792.78
Wasendorf in Receivership	My Verona	\$ 39,712.20
Wasendorf in Receivership	Wasendorf Construction	\$ 33,699.11
Wasendorf in Receivership	Wasendorf & Sons	\$ 3,925.14
Wasendorf in Receivership	Wasendorf & Associates	\$ 22,094.35
Russell R Wasendorf Receivership	Russell & Elisabeth Paladino	\$ 93.00
Russell R Wasendorf Receivership	Russell & Nancy Paladino	\$1,015,121.96
Russell R Wasendorf Receivership	Life Insurance	\$1,282,445.90

As of the date of this Report, the Receiver and Nancy through her counsel, are in the process of formalizing an agreement pursuant to which Nancy will disclaim any interest she has

in any Asset jointly titled in her and Wasendorf, Sr.'s name, including but not limited to the funds formerly held at U.S. Bank.<sup>18</sup>

**V. Wasendorf Real Estate**

Wasendorf, Sr. and the Wasendorf Entities own a total of six properties in Cedar Falls, Iowa and one in Chicago, IL. With the exception of PFG's corporate headquarters, none of the properties are secured by a mortgage. In anticipation of marketing these properties for sale, the Receiver retained Rally Appraisal to appraise the six Iowa properties. In addition, Dutton Braun, the Receiver's Iowa counsel, is assisting the Receiver in obtaining title abstracts<sup>19</sup> for each of the Iowa properties.

**A. Real Estate Owned by Wasendorf, Sr.**

Wasendorf, Sr. individually owns (i) his personal residence in Cedar Falls ("Iowa Residence"), (ii) a condominium in Chicago, Illinois (the "Chicago Condo"), and (iii) a home in Cedar Falls utilized by PFG as a corporate residence for visiting staff and other corporate guests (the "Corporate Residence"). Each of these properties are discussed below.

**i. Iowa Residence**

The Iowa Residence is located at 8901 W. Cedar Wapsi Road in Cedar Falls, Iowa. It is adjacent to two undeveloped lots, also owned by Wasendorf, Sr. Wasendorf, Sr. is now the sole owner of the residence; Connie's interest was transferred to him by warranty deed in connection with their divorce in December 2010.

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<sup>18</sup> The anticipated agreement will not affect or impair: (i) Nancy's rights in her annulment; (ii) any assets owned by Nancy; or (iii) the Receiver's rights to abandon miscellaneous household assets of minimal value (e.g., kitchen items, pictures, books, etc.) to Nancy.

<sup>19</sup> The title abstracts describe liens, encumbrances and any other documents recorded against the Iowa properties. Obtaining the abstract is the necessary first step in selling the Iowa properties.

The Iowa Residence sits on 19.64 acres of land, contains multiple buildings, including a primary house, a coach house, a work shed and a large indoor swimming pool. The primary house contains a newly renovated kitchen, a large wine cellar and significant personal property. The coach house consists of a storage garage, a finished first floor and an unfinished second floor. The work shed is a large building used for construction projects. The swimming pool is a heated indoor "U" shaped pool with a zero-grade entry on one side and a lap pool on other side with a maximum depth of 8'. Additionally, the building in which the pool is located features a spa, wet and one dry saunas, and men's and women's locker rooms. There is also a large mechanical room for the pool equipment. The pool is fully enclosed with glass panels and multiple sliding glass doors on three sides. The roof features retractable panels than open and close automatically. The pool enclosure is 8,060 square feet and the locker rooms, saunas and equipment room total 2,439 square feet. The total pool area is 3,093 square feet.

Immediately upon his appointment, the Receiver changed all of the locks at the Iowa Residence. On July 22, 2012, the Receiver was advised that, sometime between July 20-22, 2012, an unauthorized person gained access to the Iowa Residence. The Receiver immediately notified the Blackhawk County Sheriff (who agreed to additional patrols) and retained a private security firm. Representatives from both the FBI and the Receiver (both of whom were previously in the Iowa Residence and confiscated certain of Wasendorf, Sr.'s personal property) walked through the Iowa Residence on July 23 and confirmed that nothing appeared to be missing. Since that date, there has been no unusual activity at the house.

In addition to securing the Iowa Residence, the Receiver disposed of (or donated) all perishable foods, undertook a significant clean-up effort and properly closed the pool. Since his appointment, the Receiver has received two offers to purchase the Iowa Residence, including all

personal property contained therein. The Receiver rejected those offers based upon his belief (now confirmed by the receipt of the appraisals) that they were well below the market value of the property. The Receiver has met with a number of local and national real estate agents and intends on retaining an agent to market and sell the Iowa Residence.

ii. The Chicago Condo

The Chicago Condo is a penthouse unit located on the 55th floor of 195 North Harbor Drive in Chicago, Illinois. The Receiver coordinated with a number of local real estate agents to market the property for sale. The Receiver also obtained information regarding the sale of other units at 195 North Harbor Drive. In addition, the Receiver ordered a title commitment from Chicago Title Insurance Company with respect to the Chicago Condo. Wasendorf, Sr. purchased the Chicago Condo on July 15, 2003 for \$1,230,000. It is not encumbered by a mortgage.

iii. Corporate Residence

The Corporate Residence is located at 4008 Pheasant Drive in Cedar Falls, Iowa. The property is located in a subdivision and is fully furnished. It contains a built-in wine cellar in the basement and a pool table. The Receiver has obtained an appraisal for this property and is currently working to market the property for sale.

**B. Real Estate Owned by Wasendorf Construction, LLC**

Wasendorf Construction owns four properties that housed the business operations of PFG, Wasendorf & Associates and My Verona, as well as a planned future business near My Verona at which sauces, pasta and other food items were to be sold (the "Commissary").

i. PFG Corporate Headquarters

PFG's former corporate headquarters is located at 1 Peregrine Way in Cedar Falls, Iowa and is wholly owned by Wasendorf Construction. The building was constructed in 2008 for approximately \$20 million dollars, and is approximately 48,130 square feet. The property

comprises a 2-story, a glass and concrete constructed, single-tenant Class A office building that features an on-site kitchen and employee cafeteria, an on-site daycare center, an employee fitness center, an approximate 1,500 square feet raised floor data center with uninterrupted power supply with battery and diesel generator backup and an underground parking garage. It is located approximately twenty minutes from Cedar Falls/Waterloo and is adjacent to a golf course. It is a LEED certified “gold” building, reflecting its consideration of the local ecosystem and use of sustainable building materials, including bamboo floors and a subterranean heating system. Kim Hager, the former property manager, continues to ensure the building is well maintained in order to preserve its value. The PFG corporate headquarters is subject to a mortgage of approximately \$6.6 million dollars held by U.S. Bank, and is guaranteed by Wasendorf, Sr. and Wasendorf, Jr.

This property is currently occupied by a handful of PFG employees who continue to wind down the business affairs of PFG under the direction of the Trustee. In the interim, the Receiver is updating the appraisals of this property and is readying same for sale. The Receiver has interviewed a number of local and national brokers in order to understand the best way to maximize the property’s value.

ii. Wasendorf & Associates, Inc.

As set forth in Section III.B *supra*, Wasendorf & Associates operated from a warehouse in an industrial park at 5729 Westminster Drive in Cedar Falls. Wasendorf Construction owns the warehouse and all equipment therein, with the exception of the electronic inventory system and software. The warehouse houses a large inventory of books, snowmobiles owned by Wasendorf, Sr., and other kitchen equipment owned by Wasendorf Construction. The Receiver ensured the building was secure and seeks to dispose of the warehouse to any interested buyer, either in connection with a sale of Wasendorf & Associates or separately.

iii. My Verona

As set forth in Section III.A *supra*, My Verona is located in downtown Cedar Falls at 419 Main Street. Wasendorf Construction owns the land and improvements and all fixtures, furniture and equipment contained therein. The Receiver acted immediately to secure the premises and seeks to dispose of the restaurant, either as a going concern or through separate sales of the building, furniture and/or equipment. The Receiver consulted with several potential buyers and his agents have granted access to the premises for their inspection.

iv. The Commissary

The Commissary is located at 110-112 East Third Street, only a few blocks from My Verona in downtown Cedar Falls. Wasendorf, Sr. purchased the property in February 2012 and intended to use the building to sell homemade pasta sauce and related food items. The building is currently vacant and was under construction at the time of the Receiver's appointment. The Receiver received an offer to purchase the building, but based on the appraised value, the Receiver believes that the offer is far less than the property's value.

**VI. Other Receivership Assets**

In addition to the Assets described in detail above, the Receiver has uncovered the following Assets and continues to move quickly to monetize such Assets.

**A. Life Insurance**

Wasendorf, Sr. owned two life insurance policies for which he was also the beneficiary: (i) PM #008156762, with a face amount—or “death benefit”—of \$4,500,000 (the “2004 Policy”); and (ii) PM #008262016, with a face amount of \$2,160,000 (the “2011 Policy” and with the 2004 Policy, the “Policies”). The Receiver retained Melville Capital, LLC to advise him on the Policies' value and to assist in the disposition of the Policies. On August 8, 2012, this Court entered its *Order Granting Receiver's Motion for Entry of Order (A) Permitting Receiver*

*to Surrender and/or Abandon Certain Receivership Assets, and (B) Granting Related Relief* (Docket No. 58) (“Insurance Order”), pursuant to which the Receiver was authorized to surrender, abandon or otherwise negotiate agreements concerning the Policies.

In accordance with the Insurance Order, the Receiver surrendered the 2004 Policy back to the carrier for its \$1,287,339.55 cash surrender value (“CSV”). The 2011 Policy has a death benefit of \$2,160,000, but no CSV. Since this policy is not saleable, the Receiver currently intends on holding the 2011 Policy until its natural lapse in February 2014 without making any further payments. If Wasendorf, Sr. dies prior to the lapse of the 2011 Policy, the \$2,160,000 death benefit will be paid to the Receiver.

**B. Personal Property**

The Receiver is currently negotiating an agreement with an auctioneer to conduct an auction sale of all personalty owned by the Receivership Entities located in Cedar Falls, Iowa.<sup>20</sup> The auctioneer will create a high profile sale event and will dispose of these Assets during a two-day, live auction sale (which will also be broadcast over the internet) from the PFG facility. In this manner, the Receiver will generate bid competition and maximum recovery for these Assets and will be able to accommodate both large and small buyers from all locations. The auction will include a vast array of Assets, including the following:

i. Wine

As discussed in Section III.A *supra*, the Receivership entities collectively own approximately 4,000 bottles of wine ranging in value. Given the disparity of value and after consultation with several wine brokers, the Receiver believes the maximum value of wine collection will be obtained via the auction sale.

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<sup>20</sup> The agreement will be subject to this Court’s approval of all aspects of the auction sale.

ii. Motor Vehicles and Boats

During the course of his investigation, the Receiver discovered several motor vehicles and boats owned, in whole or in part, by Wasendorf, Sr. Upon being retained by the Receiver, Rally Capital conducted lien and vehicle searches to identify any and all rolling stock either titled or registered to the Receivership Entities. Through the initial search, Rally Capital identified a total of sixteen vehicles and two boats titled and/or registered under the names Russell & Connie Wasendorf, Wasendorf Construction or My Verona. Rally Capital, on behalf of the Receiver, secured seven of the 16 vehicles and respective titles listed on the attached schedule. Rally Capital also identified the vehicles that it does not have in its possession, and is currently attempting to locate and secure these vehicles. Rally Capital has also secured seven snowmobiles, two boats, two John Deere Gators and three ATVs. As of the date of this Report, the Receiver is currently analyzing which party retains proper ownership of these vehicles.

**VII. Receiver's Requests for Documents and Information**

As part of his efforts to uncover Assets, the Receiver sent out approximately 150 "informal" requests for documents and information to various parties and consulted with many individuals possessing knowledge of the Assets of the Receivership Entities. The Receiver continues to receive responses and gather information from multiples sources.

**A. Banks**

In order to thoroughly verify the location of all Wasendorf, Sr. and Wasendorf Entity Assets, the Receiver sent letters to over 120 banks located in Cedar Falls, IA, Cedar Rapids, IA, and Chicago, IL, seeking documents and information relating to accounts that may have been owned or controlled by the Receivership Entities. The Receiver continues to receive responses to his requests from said banks. The Receiver's investigation continues.



The Receiver has received over 30,000 pages of records from U.S. Bank related to accounts held by the Receivership Entities and is waiting for additional documents responsive to issued subpoenas. The Receiver also received records from Lakeside Bank relating to an account held by Rhombus and from J.P. Morgan Chase relating to an account held by Traders Education Exchange, Inc. The Receiver later determined that Traders Education Exchange, Inc. is wholly owned by Wasendorf, Jr. (however, the Receiver is currently analyzing the circumstances surrounding Wasendorf, Jr.'s ownership interest).

**B. Auditors/Accountants**

The Receiver informally requested documents from Wasendorf, Sr. and Wasendorf Entities former auditors and/or accountants as he discovered their identity. The Receiver learned that Bergan Paulsen & Co., P.C. ("Bergan Paulsen"), an Iowa accounting and consulting firm, formerly prepared tax returns for each of the Receivership Entities. Bergan Paulsen produced over 9,000 pages of records relating to its work and the Receiver is in the process of gathering and reviewing such records for information regarding potential Assets.

RSM McGladrey acted as accountant and auditor after Bergan Paulsen and also provided the Receiver with over 10,000 pages of records relating to their work for the Receivership Entities.

**C. Attorneys**

The Receiver also requested documents from Wasendorf, Sr.'s former legal counsel for certain business and personal matters, including the Iowa law firms Anfinson & Luce, P.L.C. and Redfern, Mason, Larsen, and Moore, P.L.C. The Receiver anticipates that information from these entities is forthcoming. Any entities that did not immediately comply with the Receiver's document request received a copy of Amended Receivership Order and the Waiver Letter, and have since indicated their compliance with the Receiver's request.

**D. Wasendorf, Sr.'s Personal Records**

In addition to consulting with the third parties set forth above, the Receiver has and continues to review documents taken from Wasendorf, Sr.'s homes and offices. The Receiver is currently reviewing such documentation for information relating to possible prior dispositions or concealment of Assets by Wasendorf, Sr. The Receiver is working closely with his private investigator to assist him in locating unknown Assets, avoidable distributions and concealed funds.

**E. Subpoenas**

The Receiver also served multiple subpoenas seeking bank records, and phone and e-mail records for Wasendorf, Sr.'s personal telephones and e-mail accounts. The Receiver is currently awaiting the production of responsive documents pursuant to such subpoenas.

**VIII. Other Significant Motions Filed by the Receiver**

**A. The Bar Date Motion**

On August 27, 2012, the Receiver filed his *Motion for Entry of an Order (A) Establishing Deadline for Filing Proofs of Claim and Procedures Related Thereto, (B) Approving Proposed Proof of Claim Form and (C) Approving Form and Manner of Notice of Claims Bar Date* (the "Bar Date Motion") [Docket No. 68], pursuant to which the Receiver sought entry of an Order (a) establishing December 17, 2012 (the "Bar Date") as the deadline for filing proofs of claim (other than any proof of claim submitted by the Trustee and the CFTC) and procedures related thereto, (b) approving the Receiver's proposed proof of claim form (the "Proof of Claim Form"), and (c) approving the form and manner of notice of the bar date (the "Bar Date Notice") for filing proofs of claim. On August 29, 2012, the Court entered an Order (the "Bar Date Order") [Docket No. 76] granting the Bar Date Motion.

As set forth in the Bar Date Motion, the Receiver will provide notice of the Bar Date by (a) mailing the Bar Date Notice and the Proof of Claim Form via U.S. Mail to each known creditor of the Receivership Entities within ten (10) business days of the entry of the Bar Date Order, (b) posting the Bar Date Notice and the Proof of Claim Form on the informational website maintained by Rust Omni, [www.omnimgt.com/wasendorfreceiver](http://www.omnimgt.com/wasendorfreceiver), within ten (10) business days of the entry of an Order approving this Motion, and (c) publishing the Bar Date Notice not less than sixty (60) days before the Bar Date in The Chicago Tribune and a publication of general circulation in the Cedar Rapids/Waterloo, Iowa area.

**B. Agreed Order with U.S. Bank**

On September 4, 2012, the Receiver filed his *Motion for an Entry of an Agreed Order providing Priority Claim, Additional Liens, and Provisional Payments to U.S. Bank* (the “Agreed Order with U.S. Bank”) [Docket No. 81]. The Court entered the Agreed Order with U.S. Bank on September 7, 2012 [Docket No. 87]. Pursuant to the Agreed Order with U.S. Bank, the Receiver can now use certain funds in the Receivership Accounts, including funds against which U.S. Bank claims a setoff right, to pay valid claims arising from and after the Commencement Date.

**C. Motion for Turnover**

On July 9, 2012, prior to the Receiver’s appointment, Nancy’s daughter, Elisabeth Paladino (“Elisabeth”), withdrew \$50,000 from the U.S. Bank account she shared with Wasendorf, Sr. and deposited it in a Regions Bank account in her own name. On August 29, 2012, the Court granted the Receiver’s Motion for Turnover of the \$50,000 to the Receiver [Docket No. 71]. Upon acting to secure the return of these funds pursuant to the Court’s Order, the Receiver learned the FBI seized the funds contained in Elisabeth’s Regions Bank account.

The Receiver is working with the FBI to cause the return of the seized funds to the Receivership estate.

**IX. Additional Litigation against Wasendorf, Sr.**

Since the Receiver's appointment, several former PFG customers filed civil litigation against PFG and certain individuals, including Wasendorf, Sr. Pursuant to the Amended Receiver Order, all proceedings against Wasendorf, Sr. are stayed and the Receiver is authorized to intervene in any actions against Wasendorf, Sr. to enforce such stay. The Receiver obtained orders staying proceedings against Wasendorf, Sr. in the following actions: (i) *La Salvia v. Wasendorf, Sr.*, No. 12-cv-05546; (ii) *Wolinsky v. Wasendorf, Sr.*, No. 12-cv-05624; (iii) *Power Vanguard Ltd. v. Wasendorf, Sr.*, No. 12-cv-05727; (iv) *Ibrahim v. Wasendorf, Sr.*, No. 12-cv-06137; (v) *Alexander v. Wasendorf, Sr.*, No. 12-cv-06390; and (vi) *Modi v. Wasendorf, Sr.*, No. 12-cv-06985 (originally filed in the Northern District of Iowa).

**X. Anticipated Future Actions by the Receiver**

The Receiver continues to cooperate with the FBI, DOJ, CFTC, the Trustee and others to identify, secure and liquidate Assets of the Receivership Entities. One of the primary targets of the Receiver's investigation is the Receivership Entities' receipt of funds from PFG customer accounts. In connection with this investigation, the Receiver is working closely with the Trustee to avoid duplication of services and to maximize the return to customers and creditors of the receivership and bankruptcy estates. For example, the Receiver recently discovered a considerable distribution of customer funds paid to a creditor of Wasendorf, Sr. from PFG's customer segregated account. The Receiver promptly informed the Trustee of the payments and provided his attorneys with documents reflecting the transfer, thereby enabling the Trustee to recover such amounts in the Bankruptcy Case.

The Receiver's primary focus is the continued liquidation of known Assets within the Receivership estate and the search for unknown Assets.

**CONCLUSION**

**WHEREFORE**, Michael M. Eidelman, not individually but solely in his capacity as the Court appointed temporary equity Receiver for Russell R. Wasendorf, Sr., respectfully submits this Temporary Receiver's First Report (July 10, 2012 - September 10, 2012).

Dated: September 10, 2012

Respectfully submitted,

MICHAEL M. EIDELMAN, NOT  
INDIVIDUALLY BUT AS RECEIVER  
FOR RUSSELL R. WASENDORF, SR.

By: s/Randall M. Lending  
One of his Attorneys

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**CERTIFICATE OF SERVICE**

I hereby certify that on September 10, 2012, I caused the foregoing TEMPORARY RECEIVER'S FIRST REPORT (JULY 10, 2012 - SEPTEMBER 10, 2012) to be electronically filed with the Clerk of Court using the CM/ECF system, which will send notification of such filing to all counsel of record in the case.

s/ Randall M. Lending\_\_\_\_\_